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Comments

To: Utah Public Service Commission

From: Utah Division of Public Utilities

Chris Parker, Director

William Duncan, Manager

Date: October 4, 2018

Re: **DPU comments on UUSF status** Docket No. 18-999-09

Issue

This memorandum updates the Commission on the status of the Utah Universal Service Fund (UUSF) and common issues in contemporaneously filed dockets.

Background

Pursuant to PSC rule R746-8-401(4)(a)(b), The Division of Public Utilities has recently filed with the PSC recommendation changes in the monthly distribution for each provider. This memo addresses the cumulative impact on the UUSF and the recommended increase to the USF surcharge needed to fund the increased distributions.

During the course of the review there have been a few issues identified where there is disagreement between the DPU and some providers. This memo is provided to identify those issues that need to be resolved on a broad basis.

Discussion

The DPU recommends increased annual UUSF disbursements totaling \$4,310,589. During the last six months, the DPU has recorded an average of 2,997,239 connections per month contributing to the UUSF. Assuming the number of contributing connections remains static, the UUSF surcharge needs to increase by \$0.12/month to fund the increased disbursements and maintain a stable balance in the UUSF.

The DPU is in contact with the Universal Service Administrative Company (USAC) to determine the number of participants receiving a lifeline subsidy (both wireline and wireless). If the number of participants has changed materially from prior projections that impact the UUSF surcharge, the DPU will file updated report to the PSC

There are three additional issues that the PSC should resolve where there have been disagreements between the DPU and providers:

Interest Synchronization:

The DPU has calculated UUSF disbursements using the principle of interest synchronization where a company has no debt in its capital structure. Providers and the Utah Rural Telecom Association (URTA) do not agree with the use of this regulatory principle. Generally, URTA members view this as a change to the statutory rate of return while the DPU believes it is a standard prudence adjustment supported by past Commission precedent.

Prospective or Retroactive UUSF payments:

The DPU has calculated 2019 UUSF disbursements using prospective rate making principles, including the use of tax rates that will be in effect during the rate effective period. Providers and URTA believe that UUSF payments should be retroactive or a “true-up” of a prior period. For example, payments received in 2019 would “true-up” costs incurred in 2017. If the fund is used as a retroactive true-up, the DPU argues the use of hypotheticals and stale projections for various items is inappropriate and a backward-looking prudence review is also warranted, much like similar energy utility mechanisms, which require more robust auditing.

Excess Deferred Income Tax (EDIT)

The change in the tax law has required companies to calculate EDIT. This is money that should be refunded back to the UUSF for past over-collections based on a higher tax rate that no longer applies. The DPU has utilized the providers' calculations of EDIT and the repayment period in developing the recommendations. These amounts are in addition to the changes the DPU calculated by a review of the annual reports. There are some providers where the DPU is recommends no USF disbursement in 2019, and therefore no way to deduct the repayment of EDIT. If the PSC determines that USF is now a retroactive reimbursement from prior years, then the PSC would have to determine how these repayments would be accomplished. It may also consider whether the EDIT amortizations should result in rate reductions or some other action.

Conclusion

If the PSC orders the changes in UUSF recommended by the DPU, the PSC should increase the UUSF surcharge to \$0.49 per month per access line or connection.

The PSC should schedule a proceeding to adjudicate the other issues described above, either in each individual case or more broadly. This adjudication should be brief in duration to allow UUSF changes to take effect in a reasonable time, preferably by January 1, 2019.